R J Reynolds
Tobacco Company

Mark Young
New York Metro

February 8, 198

To: George Moulton, Jim Mallardi, Art Groll, Frank Perez/Diane Reuter

Subject: Salem Cigars / Information

Dear Managers,

Listed below is the approximate cost structure and Pricing that we're looking at for the Salem Test Cigar project that will be worked in April. Please note, this is our first cut at setting a price and Direct account program that will "Incent" the Direct Account to Totally handle this introduction ..... NO involvement with our Sales People on the Street!

	Cigars	Cases	Boxes/25
Salem Cigars	100,000	200	4,000
RJR Cost (McDonald)	$ 1.00	$500.00	$ 25.00
Shipping cost	$ 0.05	$25.00	$ 1.25
Federal Tax	$ 0.03	$15.00	$ 0.75
Duty Tax	$ 0.01	$5.00	$ 0.25
Ad Val import Tax	$ 0.02	$10.00	$ 0.50
	$ 1.11	$555.00	$ 27.75
List Price (to DA's)	$ 1.65	$825.00	$ 41.25
NY Tax	$ 0.33	$165.00	$ 8.25
D/A Cost	$ 1.98	$990.00	$ 49.50
[redacted]	[redacted]	[redacted]	[redacted]
D/A Mark-up / 8%	$ 0.16	$80.00	$ 4.00
D/A List to Retail	$ 2.42	$1210.00	$ 60.50
Retail Markup @ 40%	$ 0.97	$485.00	$ 24.25
NY Sales Tax @ 8.25%	$ 0.28	$140.00	$ 7.00
Retail Sales Price	**$ 3.67**	**$1835.00**	**$ 91.75**

Box: 25 cigars
Case: 20 boxes of 25 cigars

Your feedback and input is definitely needed ..... afterall, we've never been in the Cigar business. The objective of this Salem Cigar is to compliment the new image of Salem in

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the test market ..... Unexpected things are associated with new Salem, such as Salem Cigars. It's not to aggressively get into the cigar business.

We as a company need to deliver a quality Cigar (this one should accomplish it), at a good price and most importantly, give the test Direct Accounts that we will offer this product, a program that is strong enough to incent their Jobber Salesmen / Telemarketers to aggressively sell the limited allocation of new product to the right target retail stores. We've heard this for the past years with DPC ..... the key is to get the Direct Account to do the Work!

As you can see on the preliminary price sheet, we have highlighted a special program for the direct account and their sales people ($7.00 per box incentive).

> *My first question to the group: will the $7.00 per box incentive work ..... and how do you recommend the payment be allocated (Retail / Jobber SR / DA)? What is shown above is simply an example. Is this payment enough to get the job done?*
>
> *Second, should this $7.00 per box payment be off-invoice or should we pay this incentive to the Direct Account in the same manner as PDC?*
>
> *The Third question is: what are your recommendations on what Direct Accounts / Sub's should be offered this new cigar program, and do you have any additional ideas that would help make this program a success.*

As you give these issues some thought, naturally it will be to your benefit to get feedback from your better Cigar Distributors ..... naturally without "Letting the Cat out of the Bag". We do not want the word on this new product to get out yet.

If you have any questions, just give us a call. We will have a meeting approximately a month prior to introduction with the Salem group to determine our needs for introduction (sell sheets for DA's, new product info sheets, target retail accounts, cigar displays / information, target Direct Accounts, etc.).

Sincerely,

Mark Young

cc: Rhonda Plummer
Lori O'Connor / Mark LaBrecque (please note slight changes in DA margin numbers)
Mike McHugh
Rory O'Rourke
NY Metro Managers / as information only

Word file: Cigar1.doc

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